

Internal Revenue Service

Department of the Treasury

District
Director

1100 Commerce St. Dallas, Texas 75242

Person to Contact

Telephone Number

Refer Reply to

Date

FEB 29 1984

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code.

The information submitted disclosed that you were incorporated under the Non-Profit Corporation Act on [REDACTED]. The purposes for which the corporation is organized are for the utilization and maintenance of a [REDACTED] Street and entry way and maintain its gate and security system.

Section 501(c)(7) of the Internal Revenue Code provides exemption for:

"Clubs organized for pleasure, recreation and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

Revenue Ruling 69-635, C.B. 1969-2, 126, holds that a comingling of members must play a material part in the activities of the organization before a section 501(c)(7) exemption can be granted.

Section 1.501(c)(7)-1 of the regulations provides, in part, as follows:

"(a) The exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities as in connection with club activities."

"(b) A club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other non-profitable purposes, and is not exempt under section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. However, an incidental sale of property will not deprive a club of its exemption."

Rev. Rul. 69-635, 1969-2 C.B. 126 concerns an automobile club whose principal activity is rendering automobile services to its members but has no significant social activities does not qualify for exemption under section 501(c)(7) of the Code.

Like the organization in Rev. Rul. 69-635 you are providing a security system service but have no social or recreational activities.

Rev. Rul. 75-494, 1975-2 C.B. 214 concerns a club providing social and recreational facilities. Its membership is limited to homeowners of a housing development. The club is precluded from qualifying for exemption under section 501(c)(7) of the Code because it owns and maintains residential streets, enforces restrictive covenants, and provides residential fire and police protection.

Like the organization in Rev. Rul. 75-494 you are providing for maintenance of a [REDACTED] Street, entry way, and its gate. You are also providing security monitoring for your members.

On the basis of the information submitted, we conclude that you are not exempt from Federal income tax under section 501(c)(7) of the Internal Revenue Code. You are required to file Form 1120, Federal Income Tax Return for Corporations.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible. You should also file the enclosed Federal income tax return(s) within 30 days with the Chief, Employee Plan/Exempt Organization Division 1100 Commerce, Dallas, Texas 75242.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely yours,


District Director

Enclosures:
Publication 892
Form 6018
Form 1120